

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**June 30, 2001**

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**I. Summary of Significant Accounting Policies:**

**A. Financial Reporting Entity Information:**

The City of Norfolk (the City) was incorporated February 13, 1845, and covers an area of approximately 66 square miles. The City operates under a charter adopted February 7, 1918, which mandates a Council-Manager form of government. The City and its component units provide the following municipal services to approximately 234,403 residents, as authorized by its charter or code: public safety, highway and street maintenance, water production and quality, solid waste management, wastewater treatment, cultural and parking facilities, environmental storm water management, public health, social programs, parks and recreation, public education, public improvements, planning and zoning code enforcement, public libraries, and general administration.

For financial reporting purposes, in accordance with the requirements of Governmental Accounting Standards Board (GASB) Codification Section 2100 "Defining the Reporting Entity," the City's general-purpose financial statements include the City of Norfolk (primary government) and its component units. The component units discussed below are included in the City's financial reporting entity due to their financial relationships with the City.

**B. Basis of Presentation - Fund Accounting:**

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts that include its assets, liabilities, fund equity, revenue and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

All governmental funds and the Expendable Trust Fund are accounted for using the spending or "financial flow" measurement focus. This means that generally, only current assets and current liabilities are reflected on their balance sheets. Their operating statements present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets (fund balance).

All proprietary funds, the Nonexpendable Trust Fund and the Pension Trust Fund are accounted for on a cost-of-services or economic resources measurement focus. This focus encompasses all current and noncurrent assets and liabilities associated with the funds' activities on the respective balance sheets. The reported fund equity is segregated into contributed capital and retained earnings components. Proprietary fund operating statements present increases (revenue) and decreases (expenses) in retained earnings. The reporting entity as presented in the financial statements consists of three broad fund categories (including blended component unit), two account groups, and discretely presented component units, as follows:

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**1. Governmental Fund Types**

Governmental Funds account for expendable financial resources, other than those accounted for in proprietary and fiduciary funds. The governmental fund measurement focus is based upon current financial resources, determination of financial position and changes in financial position, rather than upon net income determination as would apply to a commercial enterprise. The individual governmental funds are as follows:

- a. General Fund:** The general operating fund of the City accounts for all financial transactions not required to be accounted for in other funds. The General Fund accounts for the normal recurring activities of the City, such as police, public works, general government, etc. These activities are funded by such revenue sources as general property taxes, other local taxes, permits, privilege fees and regulatory licenses, fines and forfeitures, use of money and property, charges for services, recovered costs and non-categorical aid, shared expenses and categorical aid from the Commonwealth and Federal Government.
- b. Special Revenue Funds:** To account for the proceeds of specific revenue resources (other than expendable trusts or major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. The individual special revenue funds are as follows:

  - i. Storm Water Fund:** To account for the operation of the environmental storm water management system, including maintenance of storm water drainage facilities. The costs of providing services on a continuing basis are partially financed or recovered through user charges to Norfolk residents and commercial and industrial customers.
  - ii. Grants Fund:** To account for the receipt and disbursement of revenue from such sources as federal and state agencies, adjacent municipalities, and City matching funds and to finance special programs that may have reporting periods that do not correspond with the City's fiscal year.
  - iii. Community Development Fund:** To account for all entitlement funds received under Title I of the Housing and Community Development Act of 1974, commonly known as the Community Development Block Grant Program.
- c. Debt Service Fund:** To account for the accumulation of resources required for and the payment of principal and interest on the current portion of general long-term obligations of the City. Revenue of this fund is provided by transfers from the General Fund and the Storm Water Fund.
- d. Capital Projects Fund:** To account for the financial resources used for the acquisition, construction or renovation of major capital facilities of the City or the School Board (other than those financed by proprietary funds and trust funds).

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**2. Proprietary Fund Types:**

Proprietary Funds account for operations that are similar to those found in a commercial enterprise in the private sector. The proprietary fund measurement focus is on the determination of net income and capital maintenance. The individual proprietary funds are as follows:

- a. Enterprise Funds: To account for operations that are financed and operated in a manner similar to private business enterprises (a) where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The individual enterprise funds are as follows:
  - i. Water Utility Fund: To account for the operations of the City-owned water system. The costs for providing services on a continuing basis are financed or recovered through user charges to customers. These customers include Norfolk residential and commercial customers, the U.S. Navy, municipal customers, and others outside the City.
  - ii. Wastewater Utility Fund: To account for the operations of the City-owned wastewater (sewer) system. The costs of providing services on a continuing basis are financed or recovered through user charges to Norfolk residential and commercial customers.
  - iii. Parking Facilities Fund: To account for the operations of City-owned parking facilities (garages, lots and on-street meters). The costs of providing services on a continuing basis are financed or recovered through both user charges for long-term and short-term parking facility customer use and fines for parking violations.
- b. Internal Service Funds: To account for the financing of goods and services supplied to other funds of the City and other governmental units on a cost-reimbursement basis. Internal service funds have been established for and are currently used for the Storehouse and Fleet Management funds.

**3. Fiduciary Funds**

Fiduciary funds are used to account for assets held by the City in a trustee capacity as an agent for individuals, private organizations, other governments and/or other funds. These include the Expendable Trust, Pension Trust, Nonexpendable Trust and Agency funds. Nonexpendable Trust and Pension Trust Funds are accounted for in essentially the same

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manner as proprietary funds since their measurement focus is on economic resources. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and are accounted for on the modified accrual basis. Because of the nature of fiduciary funds, any amounts reported in the fund balance section of the balance sheets do not represent monies appropriable by City Council. The individual fiduciary funds are as follows:

- a. **Expendable Trust Fund:** To account for monies held by the City of Norfolk as a trustee. The resources of this fund are received and subsequently expended in such functions as public works, parks and recreation and libraries.
- b. **Pension Trust Fund:** To account for the operations of the Employees' Retirement System of the City of Norfolk ("System").

**Blended Component Unit:**

The Employees' Retirement System of the City of Norfolk (ERS), which has a nine-member Board of Trustees appointed by the City Council, including the City Manager and Director of Finance as ex-officio members, is the administrator of a single-employer noncontributory defined benefit plan that covers substantially all employees of the City of Norfolk, excluding School Board employees covered by the Virginia Supplemental Retirement System, as authorized by Section 143(a) of the City Charter and was established and placed under the management of the Board of Trustees for the purpose of providing retirement allowances and death benefits as authorized by the provisions of Chapter 37 of the Norfolk City Code. The City makes contributions, which are combined with investment earnings of the ERS, to provide the funding for pension benefits and administrative costs.

- c. **Nonexpendable Trust Fund:** To account for perpetual care and endowed care of certain City-owned cemeteries.
- d. **Agency Fund - Payroll Withholdings:** To account for payroll withholdings and subsequent payment to the ultimate recipient. Such items as income taxes, social security taxes and group hospitalization plan contributions flow through this custodial fund.
- e. **Agency Fund - Other:** To account for other monies held in a fiduciary capacity. Monies deposited include such items as sales, admission and food taxes to be remitted to third parties, proceeds from the sale of abandoned motor vehicles, monies held in escrow deposits for offers to purchase City property and monies held by constitutional officers in a fiduciary capacity.

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- f. **Agency Fund - Commonwealth of Virginia:** To account for monies deposited by the City Treasurer into an account from which withdrawals may be made only by the Treasurer of the Commonwealth of Virginia. It is custodial in nature. Collections include such items as state income taxes and other state revenue collected by the City.

**4. Account Groups**

Account Groups are used to provide the accounting and reporting treatment for the general fixed assets and long-term obligations of the City except for those reported in enterprise and internal service funds. These account groups are not "funds." They measure financial position and not results of operations. Each of these account groups is described below:

- a. **General Fixed Assets Account Group:** To account for the fixed assets of the City used by general operations, i.e., nonproprietary fixed assets.
- b. **General Long-Term Debt Account Group:** To account for the long-term obligations of the City financed by general operations, i.e., nonproprietary long-term obligations.

**5. Discretely Presented Component Units**

- a. **The School Board of the City of Norfolk (School Board),** which has seven elected members, is the operating body that establishes the educational and financial programs and policies for the City public school system. The City levies taxes for its operation, issues bonds or enters into capital leases for its capital requirements and approves its annual operating budget. The School Board of the City of Norfolk is comprised of the School Operating Fund, the School Special Revenue Funds and the School Board Agency Fund.
- b. **The Norfolk Redevelopment and Housing Authority (NRHA),** a political subdivision of the Commonwealth, was created by the City on July 30, 1940 under the provisions of the United States Housing Act of 1937. NRHA provides subsidized public housing and administers redevelopment and conservation projects within the City in accordance with State and federal legislation. The seven members of the Board of Commissioners are appointed by City Council. NRHA is responsible, through a contract with the City, for the administration of such activities as community development and urban renewal. The City does not have the right to impose its will on NRHA, as NRHA is responsible for designating its own management and developing its own operating budget for funding from sources other than City-contracted projects. NRHA contracts and executes major contracts on its own behalf. NRHA is responsible for its own fiscal matters as it maintains its own book of accounts, is audited annually by independent accountants it engages, and has authority over earnings, deficits and monies other than City contract funds. The City contracts with NRHA to complete specific projects, generally capital improvement projects. During 2001, the City paid NRHA \$ 2,463,103 for contracted project management services on ongoing projects. NRHA is considered to be a component unit of the City's reporting entity primarily due to its financial relationship.



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In 1997, the City entered into a supplemental cooperation agreement with NRHA to assist in the financing and construction of the Nordstrom Store, which is the primary anchor for the MacArthur Center regional shopping mall. The store was constructed on land owned by NRHA and leased to Nordstrom, Inc. NRHA obtained a loan from a financial institution that financed the cost of construction of the Nordstrom Store, which is secured in part by ground rental payments from Taubman and store rental payments from Nordstrom. The debt is also secured by pledged assets valued at June 30, 1997 at \$33,406,316, which were owned by the City and transferred to NRHA, for purposes of providing adequate security for the debt. The control over those assets, maintenance of those assets and revenue generated from those assets remain with the City. The City also has a moral obligation, though not a legal obligation, to fund NRHA deficiencies in debt service payments, if any, subject to annual appropriation by the City. Project revenue to date, following the opening of the MacArthur Center Mall, has been and is projected to continue to be sufficient to cover any such deficiencies.

**The Norfolk Community Services Board (CSB)** The Norfolk Community Services Board was created in 1969 by a resolution of the City of Norfolk. It is empowered by Chapters 10 and 11 of the *Code of Virginia* to provide mental health, mental retardation, and substance abuse services to residents of the City of Norfolk. The CSB is established under mandate of the State and follows the City rules and regulations for its financial, personnel management, and purchasing activities. The CSB carries out its roles and responsibilities under the Operating Board type of structure as outlined in the *Code of Virginia*. The CSB uses the City as its fiscal agent to provide administrative support in these areas. The CSB is composed of 15 members appointed by City Council. The City also approves the CSB's annual operating budget. This change is a change from the prior year, where it had been reported as a blended component unit in the Grants Special Revenue Fund (see note XXIX- Restatement of Prior Year Memorandum Totals).

The Hospital Authority of Norfolk was previously presented as a discrete component unit in prior years. The level of financial dependency has been reduced to the point where it is no longer required to be included as a discretely presented component unit.

Complete financial statements of the individual component units can be obtained from their respective administrative offices.

**6. Total Columns for Primary Government on Combined Financial Statements:**

The total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with accounting principles generally accepted in the United States of America, nor is such data comparable to a consolidation since interfund eliminations are not made in the aggregation of this data.

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**7. Comparative Data:**

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the City's financial position and operations. However, prior year totals by fund have not been presented in each of the statements since inclusion would make the statements unduly complex and difficult to read. Certain reclassifications have been made to conform prior year comparative data to current year presentations.

**C. Basis of Accounting:**

Basis of accounting refers to the methods used to determine when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements and to the timing of the measurements made, regardless of the measurement focus applied.

- 1. Governmental Funds** - use the modified accrual basis of accounting. Under this method revenue and related assets are recorded when they become susceptible to accrual, that is, when they become both measurable and available to financial operations during the year. Real and personal property taxes are recorded as receivables when levied and billed, which corresponds with the fiscal year for which the taxes have been levied, net of allowances for uncollectible accounts. In compliance with Section 2.9, Uniform Financial Reporting Manual for Virginia Counties and Municipalities, property taxes due and collected within 45 days after June 30 are recognized as revenue; those not collected within 45 days after year-end are reported as deferred revenue. Sales and utility taxes, which are collected by the Commonwealth and the utilities, respectively, and subsequently remitted to the City, are recognized as receivables and revenue upon collection by the Commonwealth or the utilities, which is generally in the month preceding receipt by the City. Items such as license fees, permit fees and fines are recorded as revenue when received. Intergovernmental revenue, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, is recognized at the time the specific expenditures expected to be financed by this revenue are made. Revenue from general purpose grants is recognized during the entitlement period.

Major sources of governmental funds which meet the "susceptible to accrual" criteria include the following:

§ Real property taxes	§ Revenue from the Commonwealth
§ Personal property taxes	§ Shared expenses
§ Sales and use taxes	§ Categorical aid
§ Consumer utility taxes	§ Revenue from the federal government
§ Environmental storm water billings	

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Expenditures, other than interest on general long-term obligations, are recorded as the related fund liabilities when incurred. Interest on general long-term obligations is recognized when due.

- 2. Proprietary Funds** – All the proprietary funds use the accrual basis of accounting. Revenue is recognized in the accounting period in which it is earned and expenses are recognized in the accounting period in which the related liabilities are incurred. The City's proprietary funds adopted GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting." In accordance with GASB No. 20, the City has elected not to apply statements and interpretations issued by the Financial Accounting Standards Board (FASB) after November 30, 1989.
- 3. Fiduciary Funds** – The Nonexpendable Trust Fund uses the accrual basis of accounting. The Expendable Trust Fund and agency funds use the modified accrual basis of accounting. The Pension Trust Fund financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

**D. Budgets and Budgetary Accounting:**

An operating budget is adopted each fiscal year for the General Fund, Water Utility Fund, Wastewater Utility Fund, Parking Facilities Fund, Storm Water Special Revenue Fund, and Internal Service Funds. All funds are under formal budgetary control. In establishing the budgetary data reported in the financial statements, the City uses the following procedures:

No less than 60 days before the end of the fiscal year, the City Manager must submit to the City Council, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget included proposed expenditures and the means of financing them. A public hearing is conducted to obtain taxpayer comments. Then, on or before July 1, the budget is legally enacted through adoption of an ordinance. The property taxes included in the budget become a lien on real properties on July 1.

The ordinance for the annual operating budget appropriates funds by department, subject to certain conditions, for the use of the departments included in the General Fund and in all proprietary funds. Additional budgetary controls are exercised administratively, both on an appropriation unit basis over parts, all, or any combination of object categories (budgetary account groups such as: (1) personal services; (2) materials, supplies and repairs; (3) general operations and fixed charges; (4) equipment; (5) public assistance; and (6) all purpose appropriations), as well as on a line item basis over individual objects (budgetary accounts). The City Manager is authorized by the ordinance adopting the budget to amend certain object categories and individual objects through transfers. However, any revisions that alter the total appropriations must be approved in advance by City Council.

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The School Board manages and controls all funds made available for public school purposes after the City approves its annual operating budget. In accordance with the Code of Virginia, the School Board has exclusive authority to expend funds within the total amounts appropriated by City Council. The budget for the School Board is prepared on a modified accrual basis.

Reconciliation of revenue and expenditures reported in accordance with GAAP and those presented in accordance with non-GAAP budgetary basis can be found on Exhibit 3. The budgets for the enterprise funds and internal service funds are prepared on a basis generally consistent with accounting principles generally accepted in the United States of America.

The accounting system is employed as a budgetary management control device to monitor the individual departments or bureaus/divisions within departments. The legal level of budgetary control is at the departmental account group level. Additional controls over funding within departmental account groups are exercised administratively and any unencumbered annual appropriations lapse at the end of the fiscal year.

City Council may authorize supplemental appropriations to the operating budgets during the fiscal year. Budgeted amounts as reported in the financial statements represent the original appropriations, as amended by authorized transfers, and all supplemental appropriations. Individual amendments to the budget were not material in relation to the original appropriations. All budget data presented in the accompanying financial statements are from the final budget for the fiscal year ended June 30, 2001. Adjustments to lines within the budget at mid-year may be adopted by the City Manager.

City Council also adopts a capital improvement budget and a community development budget on a project basis. As in the case of the General Fund budget, these budgets are submitted by the City Manager, public hearings are held and the budgets are legally enacted through adoption of an ordinance. Budgets are also adopted for the Grants Fund on an individual project basis. Appropriations for these budgets do not lapse at year-end but are multi-year and continue until the purpose of the appropriation has been fulfilled. Revenue to support these appropriations may be from future anticipated receipts. Amendments to these budgets are affected by City Council action. The level of budgetary control is on a project basis with additional controls being exercised administratively, as reasonable and necessary. Since an annual budget is not prepared for these funds, a comparison of budget to actual financial statements is not presented.

A separate formal budget is not prepared for the Debt Service Fund. Amounts to meet annual debt service requirements for general obligation debt recorded in the General Long-Term Debt Account Group are appropriated in the General Fund. Effective budgetary control is achieved through compliance with the latter fund's administrative controls.

The Combined Schedule of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual (Non-GAAP Budgetary Basis) compares the final appropriations and actual expenditures (including outstanding encumbrances) in the General Fund and Budgeted Discretely Presented Component Units.

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**E. Cash Equivalents and Investments:**

Investments of the Employees' Retirement System are stated at fair value. Short-term investments are recorded at cost, which approximates fair value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the System's fiscal year. Investments that do not have an established market are reported at estimated fair value. Purchases and sales of securities traded but not yet settled at year-end are recorded as due to broker for securities purchased and due from broker for securities sold, respectively. Other investments are stated at cost or at their fair value; these investments are reported in the accompanying financial statements as cash and cash equivalents, unless the original investment period exceeded three months, in which case they are reported as investments. The City does not report any investments at amortize cost. Interest income is accrued as earned.

**F. Notes Receivable:**

Notes receivable reported in the governmental funds represent assets which are measurable but not available to fund current expenditures and, therefore, are offset by deferred revenue. Payments on these balances will be recognized as revenue as they are received.

**G. Interfund Transactions:**

During the normal course of operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets and service debt. The accompanying financial statements generally reflect such transactions as operating transfers.

Internal service funds record charges for services to all City departments and funds as operating revenue. All City funds record these payments to the internal service funds as operating expenditures or expenses.

The General Fund provides administrative services to enterprise funds and internal service funds. Charges for these services are treated as operating expenses by the enterprise and internal service funds and as revenue by the General Fund.

**H. Inventories:**

Inventories are stated at cost, using either the first-in, first-out, or the moving average method. Inventories in the component unit governmental funds consist of expendable supplies held for consumption for which the cost is recorded as an expenditure when acquired, i.e., the "purchase method." Reported inventories for these funds are offset by a fund balance reserve which indicates that they do not constitute currently "available expendable resources." Proprietary funds expense inventory when used.

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**I. Fixed Assets:**

Fixed assets used in governmental fund type operations (general fixed assets) are recorded in the General Fixed Assets Account Group. Capital outlays of governmental funds are recorded as expenditures at the time of purchase and are subsequently capitalized upon completion at historical cost for control purposes in the above account group with a corresponding increase in investment in general fixed assets. Where historical cost records are not available, assets are recorded at estimated historical cost. Gifts or donated fixed assets are recorded at their estimated fair value on the date received and infrastructure is not capitalized. In the proprietary funds, interest costs incurred on funds borrowed for construction projects are capitalized net of interest earned on the temporary investment of the unexpended portion of those funds. When an asset is retired or otherwise disposed of, the related cost and accumulated depreciation are eliminated from the accounts and any resulting gain or loss is reflected as nonoperating revenue or expense.

The City's capitalization policy was revised to required capitalization of all individual fixed assets with a cost of \$2,000 or greater. The change in policy resulted in \$3,550,134 of deleted general government equipment assets in the General Fixed Asset Account Group. There was no effect on operations.

Fixed assets acquired through capital lease transactions are included in the General Fixed Assets Account Group or the appropriate proprietary fund. City land, buildings and improvements other than buildings acquired prior to June 30, 1985, for which historical cost records were not available, were appraised and valued at estimated historical cost by means of accepted price indexing methodology. Fixed assets purchased by proprietary funds are stated at cost, less accumulated depreciation.

Depreciation is not provided on general fixed assets. Depreciation of fixed assets used by proprietary funds is charged as an expense against operations using the straight-line method of depreciation over the following estimated economic useful service lives:

	<b>Enterprise Funds</b>	<b>Internal Service Funds</b>
	(in years)	
Building and improvements	10-75	40-50
Improvements other than buildings	10-99	15
Warehouse equipment and fixtures	-	7-10
Transmission and distribution mains	50-99	-
Service meters and meter installation	35-50	-
Pumping and other water/wastewater equipment	10-30	-
Vehicles and garage equipment	4-10	4-25
Data processing equipment	5-10	5-10
Furniture, fixtures and equipment	3-25	3-20

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**J. Accrued Payroll:**

Payroll costs for City employees who receive their semimonthly pay one week after month-end and certain School Board employees who work under a 9, 10 or 11 month contract paid over a 12-month period are recognized in the period in which services are rendered.

**K. Contributed Capital:**

The City of Norfolk adopted GASB Statement No. 33, "Accounting for Financial Reporting for Nonexchange Transactions" as of June 30, 2001 which requires governments to recognize capital contributions as revenue.

**L. Deferred Revenue:**

Deferred revenue represents amounts under the modified accrual basis of accounting for which asset recognition criteria have been met but for which revenue recognition criteria have not been met, whereby such amounts are measurable but are not considered currently available resources.

**M. Long-Term Debt:**

Long-term Debt payable from future expendable available resources, such as accrued leave, Employees' Retirement System contributions, capital leases, retirees' life insurance, workers' compensation claims, landfill liabilities and general obligation bonds that will be financed from governmental funds, are accounted for in the General Long-Term Debt Account Group. Long-term liabilities of all proprietary funds are accounted for in the respective funds.

**N. Accrued Leave Benefits:**

In the Primary Government, vacation and sick leave accumulate monthly. Vacation leave is fully vested when earned by City employees. Sick leave does not vest for City employees; however, upon retirement, City employees receive credit for each day of accumulated sick leave toward their pension benefit. Accumulated vacation leave cannot exceed 44 days at June 30 of each year for City employees. City employees are paid for unused vacation leave, at their normal rate of pay, upon termination of employment. The amount of unpaid vacation leave, including salary-related payments, accumulated by employees is accrued as an expense when incurred in the proprietary funds, which use the accrual basis of accounting. The entire unpaid liability for vacation in the governmental funds is recorded in the General Long-Term Debt Account Group.

In the Norfolk Public Schools vacation and sick leave accumulate monthly. Vacation leave is fully vested when earned by School Board employees. Upon retirement, School Board employees are paid \$20 for each day of accumulated sick leave in excess of 100 days. Accumulated vacation leave cannot exceed 50 days for School Board employees. School Board employees are paid for unused vacation leave, at their normal rate of pay, upon termination of

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employment. Most School Board food service employees have ten-month employment contracts and are not entitled to vacation.

**O. Fund Equity:**

Customer fees for pipeline and meter installation and the cost of pipeline installed by developers are recorded as contributed capital in the Water and Wastewater Utility Funds. Amounts contributed by other funds and transfers from account groups are also reported as contributed capital in proprietary funds. For the current year, the City adopted GASB Statement No. 33 which requires contributed capital to be recorded as revenue. Reserves are used to indicate a portion of fund balance that is not appropriable for expenditures or to identify a portion of a fund's equity as legally segregated for a specific future use. Designations of unreserved fund balances in governmental funds are established to indicate City management's tentative plans for use of financial resources in a future period.

**P. Encumbrances:**

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the General Fund, Special Revenue Funds, Capital Projects Fund and Expendable Trust Fund. Encumbrances outstanding at year-end do not lapse and are reported as reservations of fund balances. Encumbrances do not constitute expenditures in accordance with accounting principles generally accepted in the United States.

**Q. Estimates:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.



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**II. Cash, Deposits and Investments:**

The City maintains a cash and investments pool for all funds except the Pension Trust and the Nonexpendable Trust Funds. Each fund's portion of the pool is disclosed in the combined balance sheet as cash and cash equivalents. The cash and investments of the other funds enumerated above are held separately from the pooled City funds.

All deposits of the City are made in Council designated official depositories and are collateralized as required by the Commonwealth of Virginia. The City may also establish time deposit accounts, money market accounts, repurchase agreements, and certificates of deposit.

**Deposits:** All bank balances, including the component units, were covered by federal depository insurance, commercial insurance or collateralized in accordance with the Act. Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. If any member financial institution whose public deposits are collateralized in accordance with the requirements of the Act fails, the entire market value of the collateral pool becomes available to satisfy the claims of governmental entities. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members of the pool. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks.

**Investments:** Statutes authorize the City and the School Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank) and Asian Development Bank, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The Pension Trust Fund is authorized to invest in common stocks.

Investments are categorized in the following tables to give an indication of the level of credit risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its safekeeping agent in the entity's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or safekeeping agent in the entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or safekeeping agent, but not in the entity's name.

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**Primary Government:**

	<b>Category</b>			<b>Carrying Value</b>	<b>Fair Value</b>
	<b>1</b>	<b>2</b>	<b>3</b>		
U.S. government and government agency securities	\$ 78,005,972	\$ -	\$ -	\$ 78,005,972	\$ 78,456,187
Corporate bonds and debentures including commercial paper, classified as cash and short term investments	313,581,709	-	-	313,581,709	315,233,316
Common stocks	284,954,998	-	-	284,954,998	288,676,815
	<u>\$ 676,542,679</u>	<u>\$ -</u>	<u>\$ -</u>	676,542,679	682,366,318
State Street Conservative Fund				38,676,586	112,377,092
State Street Global Advisors Bond Market Index Fund				50,100,452	57,582,863
Money market investments and certificates of deposits classified as cash and short- term investments				157,352,600	157,352,629
Virginia Aim Program				47,238,474	47,503,396
Virginia State Non-Arbitrage Program				4,620,962	4,756,959
<b>Total</b>				<u>\$ 974,531,753</u>	<u>\$ 1,061,939,257</u>

**Component Units – Other:**

	<b>Category</b>			<b>Reported Value</b>	<b>Fair Value</b>
	<b>1</b>	<b>2</b>	<b>3</b>		
U.S. government and government agency securities	\$ 26,609,331	\$ -	\$ -	\$ 26,609,331	\$ 26,609,331
Repurchase agreements	-	-	2,202,439	2,202,439	2,202,439
Commercial paper	-	5,815,150	-	5,815,150	5,815,150
Metlife stock	-	553,877	-	553,877	553,877
Long-term bonds	-	575,199	-	575,199	575,199
	<u>\$ 26,609,331</u>	<u>\$ 6,944,226</u>	<u>\$ 2,202,439</u>	<u>\$ 35,755,996</u>	<u>35,755,996</u>

Certificates of deposit with original maturity greater than three months	6,732,748
	<u>\$ 42,488,744</u>

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A reconciliation of the carrying value of deposits and investments reported above to amounts reported in the combined balance sheet is as follows:

	<b>Primary Government</b>	<b>Component Units School Board</b>	<b>Other</b>
Deposits	\$ 32,989,717	\$ 15,391,533	\$ 17,701,204
Investments (including restricted investments)	1,061,939,257	7,919,221	42,488,744
Cash on hand	4,460,338	916	12,814
Total	<u>\$ 1,099,389,312</u>	<u>\$ 23,311,670</u>	<u>\$ 60,202,762</u>
 <b>Per Exhibit 1:</b>			
Cash and cash equivalents	\$ 192,440,240	\$ 23,311,670	\$ 13,577,426
Investments	859,908,867	-	34,769,091
Restricted cash and investments	47,040,205	-	11,856,245
Total	<u>\$ 1,099,389,312</u>	<u>\$ 23,311,670</u>	<u>\$ 60,202,762</u>

Limited use was made of short-term repurchase agreement investment instruments during the year. The Employees' Retirement System invests in certain derivatives, including real estate mortgage investment conduits and collateralized mortgage obligations. Investments in derivatives with a cost of \$76,754,976 and \$46,213,462 and a market value of \$77,397,858 and \$45,515,472 were held at June 30, 2001.

### **III. Property Taxes:**

Local real property assessments are made under the direction of a City Assessor appointed by the City Council. Action of the City Assessor may be appealed to a three-member Board of Review appointed by the Chief Judge of the Circuit Court. Local properties of public service corporations are assessed by the Commonwealth's Department of Taxation or the State Corporation Commission. Certain personal property, machinery and tools, mobile homes and airplanes are assessed by the Commissioner of the Revenue.

The City has the power to levy taxes on property located within its boundaries for payment of its obligations without limitation as to rate or amount. Rates are established by the City Council. The rates in effect for the year ended June 30, 2001, on each \$100 of assessed value, were \$1.40 for real property, \$.18 for the Downtown Service District, \$4.00 for personal property, \$2.00 for recreational vehicles, \$4.00 for machinery and tools, \$1.40 for mobile homes, \$2.40 for airplanes, \$.01 for pleasure boats and \$1.50 for business boats.

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The property tax calendar is as follows:

	<b>Real Property</b>	<b>Other than Real Property</b>
Lien date	July 1	January 1
Levy date for existing property	July 1	January 1
Levy date for real property improvement, new construction or newly acquired property	October 1, January 1 and April 1	Date of Acquisition
Due dates	September 30, December 5, March 31 and June 5	June 5 or 30 days after acquisition
Collection dates	On or before due date	

In the event any installment of taxes on any of the above properties is not paid on or before the due date, penalties and interest are assessed in accordance with the City Code.

The City Council may require the sale of real property in satisfaction of delinquent taxes, pursuant to the provisions of Section 89, City Charter.

**IV. Accounts Receivable:**

**A. Unbilled Accounts Receivable:**

Following is a summary by fund of unbilled accounts receivable recognized at June 30, 2001:

Water Utility Fund	\$ 879,844
Wastewater Utility Fund	<u>453,133</u>
	<u><u>\$ 1,332,977</u></u>

The associated revenue is included in net charges for services.

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**B. Allowances for Uncollectible Accounts Receivable:**

Allowances for uncollectible accounts receivable are generally established using historical collection data, specific account analysis and subsequent cash receipts. The allowances at June 30, 2001 are as follows:

<b><u>Primary Government:</u></b>	
General Fund:	
Taxes	\$ 14,700,000
Accounts	11,392,882
	<u>26,092,882</u>
Special Revenue - Storm Water Fund	242,500
Water Utility Fund	2,224,079
Wastewater Utility Fund	644,379
<b>Total - Primary Government</b>	<b><u>\$ 29,203,840</u></b>

**V. Notes Receivable:**

Notes receivable, at June 30, 2001, are as follows:

**Primary Government: General Fund**

Hospital Authority of Norfolk (HAN)

Outstanding portion of promissory notes related to general obligation bonds issued for hospital improvement purposes which were assumed by the City General Fund, due in accordance with the amortization schedules for the bonds (see Note IX). All of HAN's land, improvements, buildings and fixtures and substantially all other assets of HAN are pledged as collateral for the bonds.

	\$ 956,500
WHRO (Hampton Roads Educational Telecommunications Association, Inc.)	<u>183,244</u>
<b>Total – Primary Government</b>	<b><u>\$ 1,139,744</u></b>

<b>Component Unit: Norfolk Redevelopment &amp; Housing Authority</b>	<b><u>\$43,086,583</u></b>
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**VI. Due From Other Governments:**

Amounts due from other governments, at June 30, 2001, are as follows:

	General	Special	Capital	Total	Component Units	
	Fund	Revenue	Projects	Primary	School	Other
	Fund	Fund	Fund	Government	Board	
Other:						
Various grants/reimbursements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,629,128
Commonwealth of Virginia:						
Shared expenses	4,822,566	-	-	4,822,566	-	-
Categorical aid	6,862,946	-	-	6,862,946	6,262,344	-
Noncategorical aid	186,307	-	-	186,307	-	-
Various grants	-	2,214,922	-	2,214,922	-	-
<b>Total - Commonwealth</b>	<b>11,871,819</b>	<b>2,214,922</b>	<b>-</b>	<b>14,086,741</b>	<b>6,262,344</b>	<b>-</b>
Federal Government:						
Various grants	-	1,593,474	-	1,593,474	10,980,608	-
Housing and Urban Development	-	737,139	-	737,139	-	957,980
<b>Total - Federal</b>	<b>-</b>	<b>2,330,613</b>	<b>-</b>	<b>2,330,613</b>	<b>10,980,608</b>	<b>957,980</b>
<b>Total - Due from other governments</b>	<b>\$ 11,871,819</b>	<b>\$ 4,545,535</b>	<b>\$ -</b>	<b>\$ 16,417,354</b>	<b>\$ 17,242,952</b>	<b>\$ 3,587,108</b>

**VII. Changes in General Fixed Assets:**

A summary of changes in general fixed assets, at June 30, 2001, follows:

	July 1, 2000	Additions	Deductions	June 30, 2001
<b>Primary Government:</b>				
Land	\$ 25,952,839	\$ 13,895,064	\$ 13,896,289	\$ 25,951,614
Buildings	450,304,926	21,201,868	13,509,650	457,997,144
Improvements other than buildings	20,917,736	317,807	317,807	20,917,736
Equipment	79,352,277	12,999,773	7,988,184	84,363,866
Construction-in-progress	14,738,792	5,955,595	4,700,642	15,993,745
Interdepartmental Transfers	-	(27,615,176)	(27,615,176)	-
	<u>\$ 591,266,570</u>	<u>\$ 26,754,931</u>	<u>\$ 12,797,396</u>	<u>\$ 605,224,105</u>
<b>Component Units:</b>				
School Board	<u>\$ 71,043,532</u>	<u>\$ 17,755,599</u>	<u>\$ 2,620,405</u>	<u>\$ 86,178,726</u>
Norfolk Redevelopment & Housing Authority	<u>\$ 170,425,558</u>	<u>\$ 4,167,156</u>	<u>\$ 489,970</u>	<u>\$ 174,102,744</u>
Community Services Board	<u>\$ 1,304,163</u>	<u>\$ 15,107</u>	<u>\$ 20,791</u>	<u>\$ 1,298,479</u>

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**VIII. Proprietary Fixed Assets:**

A summary of proprietary fund property, plant and equipment, at June 30, 2001, follows:

	<b>Enterprise Funds</b>	<b>Internal Service Funds</b>	<b>Component Units - Other</b>
Land, land rights and land improvements	\$ 40,732,121	\$ 415,000	\$ 5,395,637
Buildings and building improvements	249,206,659	9,487,662	31,867,749
Transmission and distribution mains	222,627,396	-	584,031
Service meters and meter installation	21,684,126	-	-
Pumping and other water/wastewater equipment	90,503,386	-	-
Vehicles and garage equipment	223,726	546,716	2,236,819
Furniture, fixtures and equipment	17,075,099	360,360	1,903,004
Construction-in-progress	104,007,488	-	134,301
Capitalized interest	2,007,743	-	-
	748,067,744	10,809,738	42,121,541
Less accumulated depreciation	(114,648,021)	(3,215,254)	(22,191,077)
	<u>\$ 633,419,723</u>	<u>\$ 7,594,484</u>	<u>\$ 19,930,464</u>

The following is a summary by fund of interest expense/revenue capitalized during the fiscal year ended June 30, 2001:

	<b>Interest Expense</b>	<b>Interest Revenue</b>	<b>Net Capitalized</b>
Water Utility Fund	\$ 2,489,191	\$ (1,868,457)	\$ 620,734
Wastewater Utility Fund	1,315,994	(385,848)	930,146
Parking Fund	1,098,022	(641,159)	456,863
	<u>\$ 4,903,207</u>	<u>\$ (2,895,464)</u>	<u>\$ 2,007,743</u>

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**IX. Long-Term Obligations:**

**A. General Obligation and Revenue Bonds:**

A summary of general obligation bond and revenue bond transactions for the fiscal year ended June 30, 2001 follows:

		Enterprise Funds		
	Public Improvement Bonds	Water Utility Bonds	Wastewater Utility Bonds	Parking Facilities Bonds
General obligation bonds outstanding at July 1, 2000	\$ 360,344,303	\$ 59,165,114	\$ 47,688,365	\$ 21,153,758
Bonds retired	(32,084,323)	(7,242,530)	(3,538,872)	(2,697,739)
Bonds issued	25,657,170	-	-	-
Bonds outstanding at June 30, 2001	<u>353,917,150</u>	51,922,584	44,149,493	18,456,019
Unamortized discount/premium		(932,520)	(350,177)	(635,018)
General obligation bonds outstanding June 30, 2001, adjusted for unamortized discount/premium		<u>\$ 50,990,064</u>	<u>\$ 43,799,316</u>	<u>\$ 17,821,001</u>
Revenue bonds outstanding at July 1, 2000		276,630,000	-	70,990,000
Bonds retired		(4,680,000)	-	(1,320,000)
Bonds refunded		(23,000,000)	-	(12,420,000)
Bonds issued		23,000,000	-	28,040,000
Bonds outstanding at June 30, 2001		271,950,000	-	85,290,000
Less unamortized discount		(5,600,131)	-	(3,904,834)
Revenue bonds outstanding at June 30, 2001, adjusted for unamortized discount/premium		<u>\$ 266,349,869</u>	<u>\$ -</u>	<u>\$ 81,385,166</u>

In accordance with ordinances adopted by City Council, on July 1, 1988, the City established a separate operating unit, the Hospital Authority of Norfolk (HAN), which operates Lake Taylor Hospital. Under the terms of the related Agreement of Transfer, the City retained the liability for Hospital Improvement General Obligation bonds. Simultaneously, HAN delivered promissory notes to the City that are accounted for as notes payable to the General Fund. The outstanding principal balance, at June 30, 2001, is \$956,500.

The City entered into an agreement on April 13, 2000 to sell 2.1070 acres of land to Hampton Roads Educational Telecommunications Association, Inc. (WHRO). WHRO delivered a deed of trust note to the City that is accounted for as a payable to the General Fund.



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General obligation bonds outstanding at June 30, 2001 are composed of the following individual issues:

**General Long-Term Obligation Account Group:**

Public Improvement Bonds:

\$1,500,000 public improvement bond issued July 11, 1989, due July 1, 2019, with interest payable annually on July 1 at 6.76 percent. \$ 1,500,000

\$88,641,817 public improvement serial bonds included as part of the \$140,665,000 bonds issued February 4, 1992, due in annual installments varying from \$3,774,577 to \$5,646,139 through February 1, 2005, with interest payable semiannually at rates varying from 4.75 to 6.00 percent. The amount due is net of \$26,466,827 due from February 1, 2006 through February 1, 2012, which was advance refunded with proceeds from the June 15, 1998, bond issue. 16,727,666

\$54,420,794 public improvement serial bonds included as part of the \$101,295,000 bonds issued March 2, 1993, due in annual installments varying from \$1,870,000 to \$3,684,741 through February 1, 2013, with interest payable semiannually at rates varying from 4.50 to 5.50 percent. 27,035,420

\$20,835,766 public improvement serial bonds included as part of the \$29,065,000 bonds issued July 1, 1993, due in annual installments varying from \$268,826 to \$2,193,616 through June 1, 2006, with interest payable semiannually at rates varying from 4.00 to 5.00 percent. 9,498,499

\$132,886,594 public improvement serial bonds included as part of the \$182,685,000 bonds issued March 17, 1994, due in annual installments varying from \$2,961,856 to \$10,513,840 through June 1, 2013, with interest payable semiannually at rates varying from 4.30 to 5.40 percent. 90,954,137

\$39,000,000 public improvement serial bonds included as part of the \$50,000,000 bonds issued May 1, 1995, due in annual installments of \$1,950,000 through June 1, 2013, with interest payable semiannually at rates varying from 5.25 to 6.00 percent. The amount due is net of \$3,900,000, due from May 1, 2014 through May 1, 2015, which was advance refunded with proceeds from the June 15, 1998 bond issue. 23,400,000

\$55,000,000 public improvement serial bonds included as part of the \$60,000,000 bonds issued March 1, 1996, due in annual installments of \$2,750,000 through June 1, 2016, with interest payable semiannually at rates varying from 5.125 to 5.250 percent. 41,250,000

\$34,975,000 public improvement serial bonds included as part of the \$43,975,000 bonds issued April 15, 1997, due in annual installments of \$1,750,000 through June 1, 2017, with interest payable semiannually at rates varying from 5.250 to 5.375 percent. 27,975,000

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\$4,000,000 public improvement serial qualified redevelopment bonds issued April 15, 1997, due in annual installments of \$200,000 through June 1, 2017, with interest payable semiannually at rates varying from 5.25 to 5.75 percent.	\$ 3,200,000
\$67,111,792 public improvement serial bonds included as part of the \$93,520,000 bonds issued June 15, 1998 due in annual installments varying from \$1,765,305 to \$5,932,667 through June 1, 2019 with interest rates varying from 4.25 to 5.00 percent.	63,581,182
\$2,560,000 public improvement serial qualified redevelopment bonds issued September 15, 1998 due in annual installments of \$130,000 through July 1, 2018, with interest payable semiannually at rates varying from 4.70 to 5.10 percent.	2,300,000
\$11,700,000 public improvement serial bonds issued July 1, 1999 due in annual installments of \$585,000 through July 1, 2019 with interest rates varying from 4.50 to 5.00 percent.	11,115,000
\$4,000,000 public improvement serial qualified redevelopment bonds issued July 1, 1999, due in annual installments of \$200,000 through July 1, 2019 with interest rates varying from 4.55 to 5.30 percent.	3,800,000
\$7,000,000 public improvement serial qualified zone academy bonds issued August 19, 1999, due in annual installments of \$538,462 through August 18, 2012 with no stated interest.	5,923,076
\$18,025,000 public improvement serial bonds issued July 15, 2000 due in annual installments varying from \$804,583.90 to \$800,138.70 through July 1, 2020 with interest rates varying from 5.00 to 5.25 percent.	\$18,025,000
\$3,995,000 public improvement serial qualified redevelopment bonds issued July 15, 2000 due in annual installments varying from \$200,000 to \$195,000 through July 1, 2021 with interest rates varying from 5.125 to 5.65 percent.	\$3,995,000
\$3,637,170 public improvement serial qualified zone academy bonds issued November 22, 2000, due in annual installments of \$279,782.30 through November 22, 2013 with no stated interest.	<u>3,637,170</u>
<b>Total general long-term obligation bonds outstanding</b>	<b>\$353,917,150</b>

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**Enterprise Funds:**

**Water utility development bonds:**

\$34,217,243 public improvement serial bonds included as part of the \$140,665,000 bonds issued February 4, 1992, due in annual installments varying from \$1,459,521 to \$2,115,088 through February 1, 2005, with interest payable semiannually at rates varying from 4.75 to 6.00 percent. The amount due is net of \$10,216,644 due from February 1, 2006 through February 1, 2012, which was advance refunded with proceeds from the June 15, 1998 bond issue.

\$ 6,457,162

\$28,431,728 public improvement serial bonds included as part of the \$101,295,000 bonds issued March 2, 1993 due in annual installments varying from \$750,000 to \$2,509,695 through February 1, 2013, with interest payable semiannually at rates varying from 4.50 to 5.50 percent.

12,578,305

\$5,347,960 public improvement serial bonds included as part of the \$29,065,000 bonds issued July 1, 1993, due in annual installments varying from \$470,120 to \$529,920, through June 1, 2006, with interest payable semiannually at rates varying from 4.00 to 5.00 percent.

2,438,000

\$27,484,371 public improvement serial bonds included as part of the \$182,685,000 bonds issued March 17, 1994, due in annual installments varying from \$867,707 to \$2,718,730 through June 1, 2011, with interest payable semiannually at rates varying from 4.30 to 5.40 percent.

19,756,422

\$10,692,696 public improvement serial bonds included as part of the \$93,520,000 bonds issued June 15, 1998 due in annual installments varying from \$6,521 to \$1,402,071 beginning June 1, 2006 through June 1, 2012 with interest rates varying from 4.25 to 5.00 percent.

10,692,696

Water utility development bonds outstanding 51,922,585  
Less unamortized bond discount 932,520

**Net water utility development bonds outstanding** **50,990,065**

**Wastewater utility development bonds:**

\$6,450,000 public improvement serial bonds included as part of the \$140,665,000 bonds issued February 4, 1992, due in annual installments varying from \$275,122 to \$398,697 through February 1, 2005, with interest payable semiannually at rates varying from 4.75 to 6.00 percent. The amount due is net of \$1,925,852, due from February 1, 2006 through February 1, 2012, which was advance refunded with proceeds from the June 15, 1998 bond issue.

1,217,185

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\$10,775,133 public improvement serial bonds included as part of the \$101,295,000 bonds issued March 2, 1993, due in annual installments varying from \$500,000 to \$569,210 through February 1, 2013, with interest payable semiannually at rates varying from 4.50 to 5.50 percent.	\$ 6,165,107
\$965,177 public improvement serial bonds included as part of the \$29,065,000 bonds issued July 1, 1993, due in annual installments varying from \$84,845 to \$95,638 through June 1, 2006, with interest payable semiannually at rates varying from 4.00 to 5.00 percent.	440,000
\$11,111,446 public improvement serial bonds included as part of the \$182,685,000 bonds issued March 17, 1994, due in annual installments varying from \$265,464 to \$786,497 through June 1, 2013, with interest payable semiannually at rates varying from 4.30 to 5.40 percent.	7,509,747
\$11,000,000 public improvement serial bonds included as part of the \$50,000,000 bonds issued May 1, 1995, due in annual installments of \$550,000 through June 1, 2015, with interest payable semiannually at rates varying from 5.25 to 6.00 percent. The amount due is net of \$1,100,000, due from May 1, 2014 through May 1, 2015, which was advance refunded with proceeds from the June 15, 1998, bond issue.	6,600,000
\$5,000,000 public improvement serial bonds included as part of the \$60,000,000 bonds issued March 1, 1996, due in annual installments of \$250,000 through June 1, 2015, with interest payable semiannually at rates varying from 5.125 to 5.250 percent.	3,750,000
\$9,000,000 public improvement serial bonds included as part of the \$43,975,000 bonds issued April 15, 1997, due in annual installments of \$450,000 through June 1, 2017, with interest payable semiannually at rates varying from 5.250 to 5.375 percent.	7,200,000
\$12,166,844 public improvement serial bonds included as part of the \$93,520,000 bonds issued June 15, 1998 due in annual installments varying from \$449,695 to \$864,945 beginning June 1, 2000 through June 1, 2015 with interest rates varying from 4.25 to 5.00 percent.	<u>11,267,454</u>
Wastewater utility development bonds outstanding	44,149,493
Less unamortized bond discount	<u>350,177</u>
<b>Net wastewater utility development bonds outstanding</b>	<b><u>43,799,316</u></b>

**CITY OF NORFOLK, VIRGINIA**  
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**Parking facilities development bonds:**

\$11,355,941 public improvement serial bonds included as part of the \$140,665,000 bonds issued February 4, 1992 due in annual installments varying from \$484,382 to \$701,951 through February 1, 2005, with interest payable semiannually at rates varying from 4.75 to 6.00 percent. The amount due is net of \$3,390,677, due from February 1, 2006 through February 1, 2012, which was advance refunded with proceeds from the June 15, 1998 bond issue.

\$ 2,142,988

\$7,667,345 public improvement serial bonds included as part of the \$101,295,000 bonds issued March 2, 1993, due in annual installments varying from \$95,000 to \$1,170,078 through February 1, 2013, with interest payable semiannually at rates varying from 4.50 to 5.50 percent.

3,386,169

\$1,916,096 public improvement serial bonds included as part of the \$29,065,000 bonds issued July 1, 1993, due in annual installments varying from \$168,347 to \$189,863 through June 1, 2006, with interest payable semiannually at rates varying from 4.00 to 5.00 percent.

873,500

\$11,202,590 public improvement serial bonds included as part of the \$182,685,000 bonds issued March 17, 1994, due in annual installments varying from \$172,680 to \$1,321,182 through June 1, 2013, with interest payable semiannually at rates varying from 4.30 to 5.40 percent.

8,504,694

\$3,548,668 public improvement serial bonds included as part of the \$93,520,000 bonds issued June 15, 1998 due in annual installments varying from \$2,164 to \$465,316 beginning June 1, 2006 through June 1, 2012 with interest rates varying from 4.25 to 5.00 percent.

3,548,668

Parking facilities development bonds outstanding 18,456,019  
Less unamortized bond discount 635,018

**Net parking facilities development bonds outstanding 17,821,001**

**Net general obligation bonds outstanding \$ 466,527,532**



**CITY OF NORFOLK, VIRGINIA**  
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A summary of the requirements to amortize general obligation bonds recorded in the General Long-Term Debt Account Group at June 30, 2001 is as follows:

<b>Year Ending June 30,</b>	<b>Public Improvement Bonds</b>	
	<b>Principal</b>	<b>Interest</b>
2002 \$	31,226,364	\$ 17,739,695
2003	30,736,932	16,234,369
2004	29,186,363	14,711,246
2005	28,992,473	13,264,055
2006	27,649,819	11,711,220
Thereafter	206,125,199	53,291,648
<b>Total \$</b>	<b>353,917,150</b>	<b>\$ 126,952,233</b>

General Fund revenue is used to satisfy general obligation bonds payable recorded in the General Long-Term Debt Account Group. Bonds recorded in the enterprise funds are payable first from the revenue of the specific funds in which they are recorded; however, the full faith and credit of the City are pledged to the payment of the principal and interest on all general obligation bonds. The General Fund assumed a note payable on behalf of the former National Maritime Center Authority and Holding Corporation of ILA Local 1248. The note will be paid according to the following schedule:

<b>I.L.A.</b>				<b>National Maritime Center Authority</b>			
<b>Year Ending</b>		<b>Principal</b>	<b>Interest</b>	<b>Year Ending</b>		<b>Principal</b>	<b>Interest</b>
<b>June 30,</b>				<b>June 30,</b>			
2002 \$	9,036	\$	15,728	2002 \$	448,423	\$	176,577
2003	9,545		15,218	2003	561,594		138,406
2004	10,084		14,680	2004	605,563		94,437
2005	10,653		14,111	2005	653,411		46,589
2006	11,254		13,510	2006	196,482		4,231
Thereafter	238,760		101,745	Thereafter	-		-
<b>Total \$</b>	<b>289,332</b>	<b>\$</b>	<b>174,992</b>	<b>Total \$</b>	<b>2,465,473</b>	<b>\$</b>	<b>460,240</b>

Water revenue bonds are payable solely from the revenue of the Water Utility Fund. The most restrictive covenant of the water revenue bonds requires the Water Utility Fund net revenue not be less than the greater of (i) the sum of 1.1 times senior debt service and 1.0 times subordinated debt service for the fiscal year or (ii) 1.0 times the funding requirements for transfers from the revenue fund to the operating fund, the bond fund, the parity debt service fund, the debt service reserve fund, the subordinate debt service fund, the repair and replacement reserve fund and the rate stabilization fund. Pursuant to the terms of the revenue bond indenture, certain resources have been set aside for the repayment of the revenue bonds. These resources are classified as restricted cash and investments on the balance sheet because their use is limited by applicable bond covenants.

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Parking revenue bonds are payable solely from the revenue of the Parking Facilities Fund. The most restrictive covenant of the parking revenue bonds requires the Parking Facilities Fund net revenue not be less than the greater of (i) the sum of 1.25 times senior debt service and 1.0 times subordinated debt service for the fiscal year and (ii) 1.0 times the funding requirements for transfers from the revenue fund to the operating fund, the bond fund, the parity debt service fund, the debt service reserve fund, the MacArthur Center Garage reserve fund, the repair and replacement reserve fund, the surety bond interest fund and the subordinate debt service fund. Pursuant to the terms of the revenue bond indenture, certain resources have been set aside for the repayment of the revenue bonds. These resources are classified as restricted investments on the balance sheet because their use is limited by applicable bond covenants.

At June 30, 2001 the following defeased bond from advance refundings is still outstanding:

Defeased In	Original Issue	Amount
1998	1995	\$ 5,000,000

The detailed requirements to amortize general obligation bonds outstanding for the Water Utility Fund, Wastewater Utility Fund, and Parking Facilities Fund, at June 30, 2001, are presented in the tabulation that follows:

Year Ending June 30,	Water Utility Fund		Wastewater Utility Fund		Parking Facilities Fund		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2002	\$ 7,130,956	\$ 2,663,157	\$ 3,525,753	\$ 2,301,939	\$ 2,640,172	\$ 935,702	\$ 13,296,881	\$ 5,900,798
2003	7,022,862	2,308,778	3,400,413	2,125,231	3,028,037	801,547	13,451,312	5,235,556
2004	5,442,466	1,961,375	3,325,887	1,951,037	2,118,529	661,120	10,886,882	4,573,532
2005	5,386,229	1,682,198	3,313,633	1,779,463	2,090,910	553,277	10,790,772	4,014,938
2006	4,571,758	1,368,275	3,409,563	1,596,813	1,377,104	434,040	9,358,425	3,399,128
Thereafter	22,368,314	3,892,389	27,174,244	7,041,589	7,201,267	1,303,568	56,743,825	12,237,546
	<u>\$ 51,922,585</u>	<u>\$ 13,876,172</u>	<u>\$ 44,149,493</u>	<u>\$ 16,796,072</u>	<u>\$ 18,456,019</u>	<u>\$ 4,689,254</u>	<u>\$ 114,528,097</u>	<u>\$ 35,361,498</u>

The detailed requirements to amortize water revenue bonds outstanding at June 30, 2001 are presented in the tabulation that follows:

Year Ending June 30,	Principal	Interest
2002	\$ 27,890,000	\$ 13,442,927
2003	5,120,000	12,972,439
2004	5,355,000	12,731,799
2005	5,625,000	12,461,315
2006	5,930,000	12,159,130
Thereafter	222,030,000	146,932,681
<b>Total</b>	<b>\$ 271,950,000</b>	<b>\$ 210,700,291</b>



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**NOTES TO COMBINED FINANCIAL STATEMENTS**  
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The detailed requirements to amortize parking revenue bonds outstanding at June 30, 2001 are presented in the tabulation that follows:

<b>Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>
2002 \$	1,010,000	\$ 4,673,455
2003	1,080,000	4,604,553
2004	1,155,000	4,531,559
2005	1,225,000	4,451,612
2006	1,310,000	4,368,728
Thereafter	79,510,000	67,347,430
<b>Total \$</b>	<b>85,290,000</b>	<b>\$ 89,977,337</b>

On October 18, 2000 the City of Norfolk parking facilities fund issued \$17,860,000 Parking System Revenue and Refunding Bonds, Series 2000B. \$14,485,000 (par value) of the issue was to advance refund \$9,165,000 of the City's \$54,450,000 Parking System Revenue Bonds, Series 1997, and \$3,255,000 of the City's \$17,475,000 Parking System Revenue Bonds, Series 1999.

The refunding was performed as a part of an overall financing package that required the issuance of taxable as well as tax-exempt bonds. By refunding a portion of tax exempt obligations due from 2001 through 2009, it was possible to structure the higher rate, taxable obligations over a short term (2001 to 2009).

The net proceeds from the issuance were used to purchase U. S. government securities and those securities deposited in an irrevocable trust with an escrow agent to provide debt service payments at maturity through February 2009. The advance refunding met the requirements of an in-substance debt defeasance and the portion of the bonds described above was removed from the City's financial statements.

As a result the City increased its debt service requirements by \$22,730,079 which resulted in an economic loss (the difference in the present value of the debt service of the old and new debt) of \$494,598.

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**B. Changes in General Long-Term Obligations:**

A summary of changes in general long-term obligations other than general obligation bonds payable recorded in the General Long-Term Obligations Account Group follows:

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2001</u>
Notes payable	\$ 3,156,635	\$ -	\$ 401,830	\$ 2,754,805
Capital leases	10,554,794	6,666,606	4,138,633	13,082,767
Vested compensated absences	10,603,940	527,235	-	11,131,175
Retirees' life insurance	1,205,000	-	110,000	1,095,000
Workers' compensation claims	8,750,000	1,188,270	-	9,938,270
Automobile/general liability claims	1,558,000	-	352,816	1,205,184
Landfill closure/post-closure costs	7,006,994	-	663,994	6,343,000
	<u>\$ 42,835,363</u>	<u>\$ 8,382,111</u>	<u>\$ 5,667,273</u>	<u>\$ 45,550,201</u>

The City leases a building and certain computer, automotive maintenance, solid waste automation and other heavy equipment, which are recorded in the General Fixed Assets Account Group at a cost of \$24,066,362. Additions to Capital Leases, in the fiscal year ended June 30, 2001, of \$6,666,606 consist of additional borrowing by the General Fund.

The remaining debt service requirements, including interest at rates varying from 4.37% to 7.26%, will be retired by funds from the General Fund on the aforementioned contracts, as follows:

<u>Year Ending June 30,</u>	<u>General</u> <u>Long-Term</u> <u>Obligations</u>	<u>Internal</u> <u>Service</u> <u>Funds</u>	<u>Totals</u>
2002	4,648,387	70,199	4,718,586
2003	3,780,222	70,199	3,850,421
2004	3,164,855	70,200	3,235,055
2005	2,141,927	46,636	2,188,563
2006	654,744	12,445	667,189
Thereafter	7,468	-	7,468
Total minimum lease payments	14,397,603	269,679	14,667,282
Less interest	1,314,836	28,111	1,342,947
	13,082,767	241,568	13,324,335
Less current portion	(4,055,029)	(57,879)	(4,112,908)
	<u>\$ 9,027,738</u>	<u>\$ 183,689</u>	<u>\$ 9,211,427</u>

The City closed its Campostella landfill site on June 30, 1992. State and federal laws require the City to perform certain maintenance and monitoring activities at the site for 30 years after

**CITY OF NORFOLK, VIRGINIA**  
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closure. The \$6,343,000 reported as an obligation for landfill closure and post/closure costs, at June 30, 2001, reflects the estimated total cost to perform these activities. Actual costs may be higher due to inflation, changes in technology and/or changes in laws.

**C. Debt Limit:**

The Commonwealth of Virginia imposes a legal limit of 10 percent of the assessed valuation of taxed real property as a ceiling in the amount of general obligation borrowings, which may be issued by the City. At June 30, 2001, the City's debt limit is \$845,828,094, of which \$374,082,848 is available for creation of additional debt. There are no overlapping tax jurisdictions.

**D. Bonds Authorized and Unissued:**

A summary of bonds authorized and unissued as of June 30, 2001 follows:

<u>Projects</u>	<u>Total</u>
<b>General obligation bonds authorized and unissued:</b>	
General capital improvement	\$ 5,104,083
Storm Water capital improvement	3,668,840
Wastewater utility development	16,310,207
	<u>25,083,130</u>
<b>Revenue bonds authorized and unissued:</b>	
Water utility development	74,813,996
Parking development	2,223,429
	<u>77,037,425</u>
Total	<u><u>\$ 102,120,555</u></u>

**E. Water Fund Liability:**

A long-term liability of \$146,902 has been recorded in the Water Utility Fund to reflect over-recovery of revenue from a wholesale customer during fiscal years 2000 and 2001 under water service contracts. A receivable of \$4,788,508 has also been recorded within the Water Utility Fund to reflect the under-recovery of revenue from wholesale customers during the fiscal years 1998, 1999, 2000 and 2001 under water sales contracts. Pursuant to the terms of the water contracts, billings to these customers were based on budgeted Water Utility Fund capital and operating expenditures during the fiscal years. The liability and receivable reflect the adjustments to billings based on the difference between budgeted and actual expenditures (capital and operating). In accordance with the water services contract, this liability will be reduced in fiscal year 2003 through credits to the customer billings. Receivables are recoverable upon delivery of rate adjustment receivables report to wholesale customers.

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**X. Compensated Absences:**

A liability for vested vacation and sick leave benefits is recorded in the General Long-Term Debt Account Group.

These benefits represent future obligations of the following funds:

<b>Primary government:</b>	
General Fund	\$ 10,865,638
Storm Water Fund	131,781
Grants Fund	133,756
Total primary government	<u>\$ 11,131,175</u>
 <b>Component Unit - School Board</b>	 <u>\$ 3,117,904</u>
 <b>Component Unit - Others</b>	 <u>\$ 2,735,455</u>

**XI. Pension Plans:**

The City and its component units participate in three defined benefit pension retirement plans. The Employee's Retirement System of the City of Norfolk (XI.A); Virginia Retirement System (VRS) plans administered for the benefit of Norfolk School Board employees (XI.B); and one VRS plan administered for the benefit of state employees in constitutional offices.

**A. Employees' Retirement System of the City of Norfolk (System):**

**1. Plan Description**

The Employees' Retirement System of the City of Norfolk (System) is the administrator of a single-employer noncontributory, defined benefit plan that covers substantially all employees of the City, excluding School Board employees who are covered by the Virginia Retirement System. The System provides retirement benefits as well as death and disability benefits. All benefits vest after 5 years of creditable service effective after January 1, 1997. Ad hoc cost-of-living adjustments ("COLAs") are provided at the discretion of the City Council. The System is established by Section 37 of the Code of the City of Norfolk, Virginia 1979, as amended, 1997. The benefit provisions of the plan are also determined by this Code section and may also be amended at the discretion of City Council. The System is included as a Pension Trust Fund in the City's financial statements and also issues a separate publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to Employees' Retirement System of the City of Norfolk, City Hall Building, 810 Union Street, Norfolk, VA 23510.

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**2. Funding Policy**

Section 37 of the Code of the City of Norfolk, Virginia, 1979, as amended 1997 established the authority under which the City's obligation to contribute to the plan is established or may be amended. Contribution requirements are actuarially determined at the end of each fiscal year and paid by the City in the ensuing year. There was no contribution requirement to the pension plan for the year ended June 30, 2001 which was based on a (6.18) percent of covered payroll for general employees and 2.87 percent of covered payroll for public safety employees. This negative percentage reduces the amount that would otherwise be required to be contributed.

**3. Annual Pension Cost**

For 2001, the System's annual pension cost was equal to the City's required and actual contribution of \$0. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the projected unit credit cost method. The amortization method used is level dollar closed. The actuarial assumptions included: (a) 7.5% investment rate of return, compounded annually; (b) projected average salary increases of 5.35%, compounded annually (reflects an assumption of a range of salary increases from 7.6% at age 20 to 4.6% at age 69), and (c) No cost-of-living adjustments. Both (a) and (b) include an inflation component of 3.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The remaining amortization period at June 30, 2001 was a weighted average of 17.5 years.

**Three-Year Trend Information**

<b>Fiscal Year Ended</b>	<b>Annual Pension Cost</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
June 30, 2001	\$ -	100%	\$ -
June 30, 2000	-	100%	-
June 30, 1999	3,456,936	100%	-

**B. School Board – Retirement Plans:**

**1. Plan Description – Virginia Retirement System (VRS)**

The School Board contributes to the Virginia Retirement System (VRS), an agent and cost sharing multi-employer defined benefit pension plan administered by the VRS. All full-time, salaried permanent employees of the School Board must participate in the VRS. Benefits vest after five years of service. Employees who retire with a reduced benefit at age 55, with at least five years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1.7% of their average final salary for each year of credited service. An optional reduced retirement benefit is available to members of VRS as

**CITY OF NORFOLK, VIRGINIA**  
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early as age 50 with ten years of credited service. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to VRS at P.O. Box 2500, Richmond, VA, 23218-2500.

## **2. Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The 5% member contribution has been assumed by the School Board. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using an actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The School Board's professional and non-professional employees' contribution rates for the year ended June 30, 2001 were 12.54% and 10.36%, respectively, of annual covered payroll. The School Board public school division's contribution rates for the fiscal years ended June 30, 2001, 2000 and 1999 was 12.54%, 14.07% and 13.55%, respectively, of annual covered payroll. Contributions to the VRS for the years ended June 30, 2001, 2000 and 1999 were \$21,056,847, \$23,149,529, and \$21,134,416, respectively - equal to the required contributions for each year.

## **3. Annual Pension Cost**

For 2001, the School Board's annual pension cost of \$19,762,928 for professional employees and \$1,293,919 for non-professional employees was equal to the School Board's required and actual contribution. The required contribution was determined as part of the June 30, 2000 actuarial valuation using the entry age normal actuarial cost method. The amortization method used was level dollar closed. The actuarial assumptions included: (a) 8% investment rate of return; (b) projected salary increases that range between 4.5% and 6.1% per year, and (c) 3.0% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 4%. The actuarial value of the School Board's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The remaining amortization period is a weighted average of 17.5 years.

Trend information for the School Board is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2001	\$ 21,056,847	100%	\$ -
June 30, 2000	23,149,529	100%	-
June 30, 1999	21,134,416	100%	-

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**4. School Board – Superintendent Defined Contribution Plan**

The School Board adopted a separate retirement plan for the Norfolk Superintendent of Schools in which the Superintendent could elect out of the VRS coverage under Virginia Code Section 51.1-126.6. The School Board will make a fixed contribution equal to 12.54% of the compensation earned by the participant during the plan year. For any plan year commencing after June 30, 2001 in which the participant remains an eligible employee, the School Board will make a fixed plan contribution on behalf of the participant equal to his compensation earned for the plan year multiplied by a percentage equal to the aggregate employer and employee percentage contribution rate that would have applied to the participant for the plan year under VRS had the participant not elected out. For the plan year, the School Board, at its discretion, may contribute to the plan on behalf of the participant such additional amounts, if any, as the School Board elects to contribute as a discretionary plan contribution. The total annual additions made for the participant for any plan year will not exceed the lesser of \$35,000 or 25% of the participants compensation for the plan year. All contributions will be fully vested and nonforfeitable when such plan contributions are made.

The School Board is the administrator of the plan and Teachers Insurance and Annuity Association is the trustee. Contributions for the year ended June 30, 2001 were fixed contributions of \$18,550 and a discretionary contribution of \$12,986.

**C. State Employees – Virginia Retirement System (VRS):**

**1. Plan Description**

The City of Norfolk contributes to the Virginia Retirement System (VRS), an agent and cost sharing multi-employer defined benefit pension plan administered by the VRS. All full-time, salaried permanent state employees in the City's five constitutional offices must participate in the VRS. These offices include: Commissioner of the Revenue, City Treasurer, Circuit Courts, Commonwealth's Attorney, and Sheriff and Jail. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with 5 years of service for participating law enforcement officers and firefighters) and age 50 with 30 years of service for participating employers (age 50 with 25 years of service for participating law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7 percent of their average final salary (AFS) for each year of credited service. In addition, retirees qualify for annual cost-of-living increases beginning limited to 5% per year in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. Participating law enforcement officers may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The VRS issues a publicly available comprehensive annual financial report that includes financial

**CITY OF NORFOLK, VIRGINIA**  
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statements and required supplementary information for VRS. A copy of that report may be obtained by writing to VRS at P.O. Box 2500, Richmond, VA, 23218-2500.

**2. Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The 5% member contribution has been assumed by the City. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using an actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate for the year ended June 30, 2001 was 3.06 % of annual covered payroll. Contributions to the VRS for the year ended June 30, 2001 were \$ 1,466,823 equal to the required contribution.

**3. Annual Pension Cost**

For 2001, the City's annual pension cost of \$ 1,466,823 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2000 actuarial valuation using the entry age normal actuarial cost method. The amortization method is level percent open. The actuarial assumptions included: (a) 8% investment rate of return; (b) projected salary increases of 4.25% to 6.10% per year, and (c) 3.0% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of the City's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The remaining amortization period is 11 years.

Trend information for the City VRS plan is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2001	\$ 1,466,823	100%	\$ -
June 30, 2000	1,230,511	100%	-
June 30, 1999	1,146,791	100%	-

**XII. Deferred Compensation Plan:**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferral may be up to 25 percent of gross income up to a maximum of \$8,000 per year. The deferred compensation plan is not available to employees until termination, retirement, death or unforeseeable emergency.

The laws governing the City's deferred compensation plan have been complied with pursuant to the provisions of IRC Section 457. Accordingly, all assets of the plan are held in trust for the exclusive benefit of the participants and their beneficiaries.



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**XIII. Interfund Receivable and Payable Balances:**

The interfund receivable and payable balances at June 30, 2001 are as follows:

	<u>Receivables</u>	<u>Payables</u>
<b><u>Primary Government:</u></b>		
General	\$ 8,952,021	\$ 1,493,069
Special Revenue:		
Storm Water	11,041	75,590
Grants	5,085	1,459,323
Community Development	-	106,403
Capital Projects	1,513,908	2,373
Enterprise:		
Water Utility	1,011,125	5,020,887
Wastewater Utility	26,101	1,074,464
Parking Facilities	-	1,456,560
Internal Service:		
Fleet Management	-	511
Fiduciary:		
Expendable Trust	2,293	1,663
Nonexpendable Trust	6,441	-
Agency Payroll Withholdings	4,656	703,514
Agency Other	51,152	189,466
<b>Total primary government</b>	<u><u>\$ 11,583,823</u></u>	<u><u>\$ 11,583,823</u></u>
 <b><u>Component Unit - School Board:</u></b>		
General	\$ 15,425,361	\$ 431,595
Special Revenue	431,595	8,616,886
Trust and Agency	-	6,808,475
<b>Total component unit - School Board</b>	<u><u>\$ 15,856,956</u></u>	<u><u>\$ 15,856,956</u></u>

At June 30, 2001, the General Fund had a remaining advance receivable of \$2,900,000 to the Parking Facilities Fund, which will be repaid over the next three years.

At June 30, 2001, the primary government had a payable to the School Board component unit totaling \$8,430,554.

At June 30, 2001, the CSB had payables to and receivables from the primary government of \$292,117 and \$10,660, respectively.

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**XIV. Interfund Transfers:**

The following interfund operating transfers occurred during fiscal year 2001:

<u>Fund</u>	<u>In</u>	<u>Out</u>
General	\$ 12,955,526	\$ 62,234,866
Special Revenue:		
Storm Water		1,323,312
Grants	3,536,496	376,426
Debt Service	51,121,038	-
Capital Projects	8,900,644	777,438
Enterprise:		
Water Utility	-	10,346,000
Wastewater Utility	-	1,450,000
Expendable Trust	-	5,662
	<u>\$ 76,513,704</u>	<u>\$ 76,513,704</u>

The General Fund also transferred \$80,882,544 to the School Board component unit, \$1,455,626 to the Norfolk Redevelopment and Housing Authority component unit and \$1,677,450 to Community Services Board component unit.

**XV. Retained Earnings Deficits:**

The Fleet Management Fund has a retained earnings deficit of \$1,235,444 at June 30, 2001. Future rate increases are anticipated to reduce this deficit.

**XVI. Recovered Costs:**

Recovered costs in the General Fund, consist of the following:

Employee hospitalization contributions	\$ 3,582,749
Information systems recoveries	1,361,821
Debt service recoveries	993,023
Administrative cost recoveries from Enterprise Funds	1,305,027
Other	6,892,717
	<u>\$ 14,135,337</u>

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**XVII. Other Liabilities:**

Other liabilities consist of the following:

**Primary Government:**

General Fund - Miscellaneous	\$ 181,905
General Fund - Risk financing liability	<u>3,815,181</u>
	3,997,086
Water Utility Fund - Due to other governments	146,902
Water Utility Fund - Miscellaneous	263,548
Water Utility Fund - Arbitrage rebate	210,645
Wastewater Utility Fund - Miscellaneous	<u>470,581</u>
	1,091,676
Storehouse Fund - Miscellaneous	39,761
Fleet Management Fund - Miscellaneous	<u>518,874</u>
	558,635
Pension Trust Fund - Due to broker	95,841,147
Payroll Agency Fund	2,057,267
Other Agency Funds	1,381,743
Commonwealth of Virginia	<u>9,776</u>
	99,289,933
<b>Total primary government</b>	<b><u><u>\$ 104,937,330</u></u></b>
<b>Component Units - Other:</b>	
NRHA - Miscellaneous	<u><u>\$ 28,938,465</u></u>
CSB - Miscellaneous	<u><u>\$ 10,454</u></u>

**XVIII. Supplemental Appropriations:**

The following supplemental appropriations were made to the general fund operating budgets during the fiscal year:

Approved FY 2000-2001 budget	<u>\$ 595,659,000</u>
Supplemental appropriations from additional revenue:	
Reimbursement from the Commonwealth of Virginia for street maintenance projects	304,969
Mooring facility improvements from proceeds from sale of the Stumpy Lake property	<u>2,000,000</u>
Total supplemental appropriations from additional revenue	<u>2,304,969</u>
Total supplemental appropriations	<u>2,304,969</u>
Final budget	<u><u>\$ 597,963,969</u></u>

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**XIX. Deferred Revenue:**

Deferred revenue at June 30, 2001 totaling \$33,116,261 is comprised of the following:

- A. Deferred grant funding:** In the Grants Fund, deferred revenue represents monies accepted from a grantor using an advancement method for payments. The amount is reduced and revenue is recorded when expenditures are incurred in accordance with the grantors' requirements. If expenditures are not incurred, the funds will revert back to the grantors. In the Community Development Fund, the deferred revenue represents deferred payment rehabilitation loans of \$1,168,529. Deferred grant funding reported at June 30, 2001, follows:

Grants	\$ 15,022,757
Community development	1,168,529
Storm Water - deferred billings	<u>235,757</u>
Total primary government - Special Revenue Funds	<u><u>\$ 16,427,043</u></u>

- B. Deferred property tax revenue:** Deferred revenue in the General Fund, representing uncollected tax billings not available for funding of current expenditures at June 30, 2001 is \$13,666,314.
- C. Notes Receivable:** Deferred revenue in the General Fund, representing noncurrent notes receivable not available for funding current expenditures at June 30, 2001, totals \$1,139,744.
- D. Other:** Certain items in the General Fund, representing prepaid and/or contributed revenue that is not available for funding current expenditures at June 30, 2001, total \$1,883,160.

The Norfolk Public Schools has deferred various unspent grants of \$5,665,769 at June 30, 2001. Component units other than Norfolk Public Schools, has deferred various unspent grants of \$103,877 at June 30, 2001.

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**XX. Segment Information for Enterprise Funds:**

	<b>Water Utility Fund</b>	<b>Wastewater Utility Fund</b>	<b>Parking Facilities Fund</b>	<b>Total</b>
Operating revenue	\$ 62,057,979	\$ 12,088,264	\$ 16,444,810	\$ 90,591,053
Depreciation	9,155,844	1,564,610	2,964,106	13,684,560
Operating income	24,169,932	3,890,736	7,598,552	35,659,220
Operating transfers out	10,346,000	1,450,000	-	11,796,000
Net income	678,159	1,206,898	3,803,578	5,688,635
Net capital contributions	102,858	25,885	-	128,743
Fixed assets,				
net change	8,236,814	3,560,874	6,125,664	17,923,352
Net working capital	3,580,791	(5,053,019)	2,685,816	1,213,588
Total assets	497,106,087	98,415,767	144,491,686	740,013,540
General obligation and				
revenue bonds payable	313,761,661	43,799,316	99,206,167	456,767,144
Fund equity	164,775,262	51,233,529	35,949,438	251,958,229

**XXI. Commitments and Contingencies:**

**A. Capital Projects:**

Commitments for completion of capital projects, authorized at June 30, 2001, are as follows:

Water utility development projects	\$ 28,387,000
Wastewater utility development projects	4,653,000
Parking facilities development projects	5,533,000
	<u>\$ 38,573,000</u>

**B. Federal Grant Programs:**

Federal programs in which the City participates were audited in accordance with the provisions of the Single Audit Act Amendment of 1996 (the Act). Pursuant to the provisions of the Act, all major programs and certain other programs were tested for compliance with applicable grant requirements. Additionally, the federal government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, future disallowances of certain grant program expenditures, if any, would be immaterial.

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**XXII. Litigation:**

The City is a defendant in a number of lawsuits. Although it is not possible to determine the final outcome of these matters, management and the City Attorney are of the opinion that the ultimate liability will not be material and will not have a significant effect on the City's financial condition.

**XXIII. Surety Bonds and Insurance:**

<u>Surety</u>	<u>Official</u>	<u>Amount</u>
Commonwealth of Virginia	Sharon McDonald, Commissioner of the Revenue	\$ 10,000
	Joseph T. Fitzpatrick, City Treasurer	3,000,000
	Robert J. McCabe, Sheriff	30,000
	Albert Teich, Jr., Clerk of the Circuit Court	2,235,000
State Farm Fire and Casualty Company	Joseph T. Fitzpatrick, City Treasurer	200,000
Commonwealth of Virginia	All employees of the City Treasurer, Sheriff , Commissioner of the Revenue, Commonwealth Attorney and Clerk of Court Performance of Duty Bond	500,000
City of Norfolk Fidelity and Deposit Company	All City employees	100,000

**XXIV. Protected Self-insurance and Purchased Programs:**

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. On July 11, 1978, the City established a protected self-insurance program Fund, pursuant to an ordinance adopted by City Council, to cover itself from these risks of losses. The program provides for the payment of claims liabilities, property losses, and related expenses covered by a combination of purchased insurance policies and self-insurance plans. The total of insurance premiums, self-insurance claims, and related expense payments made during fiscal year 2001 was \$ 5,267,833.

The City currently reports all these activities as part of the risk management function in the general government section of the General Fund. Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The City has adopted Governmental Accounting Standards Board Statement Number 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues" (GASB 10). At June 30, 2001, the amount of these liabilities, calculated under GASB 10, was \$14,958,635, of which \$3,815,181 is reported as a current liability in the General Fund and \$11,143,454, is reported as a long-term liability in the General Long-Term Debt Account Group. Liabilities for incurred but not reported claims are reported

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at their present value, using the expected future investment yield assumption of five (5) percent. These liabilities are the City's best estimate based on currently available information.

Changes in the City's claims liability amount in the fiscal years 1994 through 2001 is as follows:

	<b>Beginning fiscal-year liability</b>	<b>Current-year claims liabilities and changes in estimates</b>	<b>Current-year claims payments</b>	<b>Ending fiscal-year liability</b>
1994	\$ 2,401,884	\$ 4,164,167	\$ (3,034,427)	\$ 3,531,624
1995	3,531,624	10,073,134	(4,451,758)	9,153,000
1996	9,153,000	5,165,900	(6,165,900)	8,153,000
1997	8,153,000	6,171,376	(4,831,376)	9,493,000
1998	9,493,000	5,239,832	(3,761,832)	10,971,000
1999	10,971,000	3,365,200	(1,572,200)	12,764,000
2000	12,764,000	5,846,778	(4,648,778)	13,962,000
2001	13,962,000	3,886,110	(3,889,475)	14,958,635

The City has designated \$2,650,000 of fund equity to provide for risks of loss and claims payments that may not be fully covered by purchased insurance or annual budget appropriations. There have not been any significant reductions in insurance coverage, and settled claims have not exceeded coverage in any of the past three fiscal years.

The School Board also participates in the Program and its liability at June 30, 2001 was \$1,072,395. It also provides payments for its risks of loss through a combination of purchased insurance policies and self-insurance plans. These losses are funded through the Public Schools operating budgets and/or the City fund balance designation.

**XXV. Jointly Governed Organizations:**

**A. Hampton Roads Regional Jail Authority (HRRJA):**

HRRJA is a regional organization which includes the cities of Hampton, Newport News, Norfolk and Portsmouth, created for the purpose of providing, operating and maintaining a regional jail facility for the correctional overflow from each community. HRRJA is a primary government, with no component units, that is a body politic and corporate created pursuant to Article 3.1, Chapter 3, Title 53.1 of the Code of Virginia, as amended, and is governed by a twelve member Board of Directors, consisting of three representatives appointed by each of the member cities. The budgeting and financing of HRRJA are subject to the approval of the Board of Directors, with each individual having a single vote. HRRJA is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.

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The participating governments do not have an equity interest in the Authority, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2001. Complete financial statements of HRRJA can be obtained from HRRJA.

- B. Hampton Roads Planning District Commission (the Commission)**, a regional planning agency authorized by the Virginia Area Development Act of 1968, was created by the merger of the Southeastern Virginia Planning District Commission and the Peninsula Planning District Commission on July 1, 1990. The Commission performs various planning services for the Cities of Chesapeake, Franklin, Hampton, Newport News, Norfolk, Portsmouth, Poquoson, Suffolk, Williamsburg and Virginia Beach, and the Counties of Gloucester, Isle of Wight, James City, Southampton and York. Revenue of the Commission is received primarily from local governmental (member) contributions and various state and federal grant programs.

The participating governments do not have an equity interest in the Commission, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2001. Complete financial statements of the Commission can be obtained from the Commission.

- C. Tidewater Transportation District Commission (TTDC)**, a political subdivision of the Commonwealth of Virginia, was formed on May 9, 1973, as a joint exercise of governmental power in accordance with provisions of Chapter 32 of Title 15.1 of the Code of Virginia. TTDC provides public transportation facilities and services within the Cities of Norfolk, Portsmouth, Virginia Beach, Chesapeake and Suffolk, Virginia. Oversight responsibility is exercised by all of the participating localities through their designated representatives. Responsibility for the day-to-day operations of TTDC rests with professional management.

The participating governments do not have an equity interest in TTDC, and accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2001. Complete financial statements of TTDC can be obtained from TTDC.

**XXVI. Joint Venture:**

**Southeastern Public Service Authority (SPSA):**

SPSA is a joint venture of the Cities of Chesapeake, Franklin, Norfolk, Portsmouth, Suffolk and Virginia Beach and the counties of Isle of Wight and Southampton, created for the purpose of providing, operating and maintaining a regional system for the collection, transfer, processing and disposal of solid waste refuse. SPSA is a primary government, with no component units, that is a public body politic and corporate created pursuant to the Virginia Water and Sewer Authorities Act, and is governed by an eight-member Board of Directors consisting of a representative appointed by each of the member cities and counties. Budgeting and financing of SPSA is subject to the approval of the Board of Directors with each representative having a single vote. The Authority is responsible for its own financial matters, maintains its own books of account and is audited annually by independent accountants that it engages.



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In fiscal years 1990 and 1994, the City guaranteed \$12,514,500 (54 percent of \$23,175,000) in refunding bonds, and interest thereon, issued by the SPSA. Under the guaranty agreements, the City has agreed to make payments to the trustees for deposit in reserve accounts, if necessary, to maintain in such accounts the sums of the amounts of interest due on the next succeeding interest payment dates for the bonds and the amounts required to pay principal of all the bonds maturing on the next July 1. The City's allocable portion of the outstanding balance from the \$23,175,000 Guaranteed Subordinated Revenue Refunding Bonds, Series 1989 and the \$10,485,000, Guaranteed Subordinated Revenue Refunding Bonds, Series 1993 (refunding bonds) remains at 54 percent, with the remaining balance being due from neighboring localities as follows: Chesapeake - 23 percent; Franklin - 2 percent; and Portsmouth - 21 percent. Should SPSA perform any act that constitutes default under the bond indenture, the entire bond principal could be considered due, and the City would be liable for its allocable portion of the outstanding balances of the bonds at June 30, 2001. The participating governments do not have an equity interest in the joint venture and, accordingly, no equity interest has been reflected in the City's financial statements at June 30, 2001. Complete financial statements of SPSA can be obtained from SPSA.

**XXVII. Related Organizations:**

**A. Norfolk Airport Authority**, a political subdivision of the Commonwealth, was created to operate an airport and to promote industrial growth and consists of both an Airport Fund and an Investment Fund. The Airport Fund was established by the Authority to account for the operations of the Norfolk International Airport (the Airport). Revenue generated by airport operations is used to meet all operating expenses and to provide for payment of all principal and interest on debt of the Authority related to the Airport. The Investment Fund was established by the Authority to provide for certain airport capital improvements. The Authority finances individual capital projects by issuing bonds or obtaining loans and intergovernmental grants in its own name and concurrently entering into leases which provide for payment of all principal and interest on the related obligations as they become due. Revenue includes rental income on non-airport property owned by the Authority and interest on investments. The Authority's Commissioners are appointed by City Council but the Commission designates its own management and has oversight responsibility for its own fiscal matters. The City does not provide funds for the operations of the Authority and, pursuant to Section 144(q) of the City Charter, the Authority is required to submit its annual budget to the City Council for the purposes of information only. The City of Norfolk has the option to reacquire, without consideration, title to all property and equipment after payment by the Authority of all obligations relating to the improvements at the Airport.

**B. The Industrial Development Authority of the City of Norfolk (The Authority)**, a political subdivision of the Commonwealth of Virginia, was created by ordinance of the City of Norfolk in 1972, pursuant to the provisions of the Industrial Development and Revenue Bond Act of the Commonwealth of Virginia (Title 15.1, Chapter 33, Section 15.1-1373, et seq., of the Code of Virginia (1950), as amended. It is authorized to acquire, own, lease and dispose of

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properties to the end that such activities may promote industry and develop trade by inducing manufacturing, industrial and commercial enterprises to locate or remain in the City and further the use of the Commonwealth's agricultural and natural resources. The Authority is empowered by the Commonwealth to authorize industrial development bonds and confer tax-exempt status on interest paid to financial institutions. The Authority acts as an intermediary between financial institutions and borrowers; it has no responsibility for borrowers' debt. Although Commissioners are appointed by City Council, the Commission designates its own management, which is self-sustaining, maintains its own books of account, engages its own independent accountant, and receives its revenue from administrative fees charged to borrowers.

**C. The Chrysler Museum, Inc. (the Museum),** a Virginia non-stock, not-for-profit organization, was formed on January 1, 1980 by incorporating the Chrysler Museum at Norfolk. The main purpose of the Museum is the advancement, encouragement and promotion of the study and appreciation of art. The Museum designates its own management, which is self-sustaining, maintains its own books of account, engages its own independent accountant, and receives its revenue from administrative fees charged to visitors and from other independent grants.

**XXVIII. Pending GASB Statements:**

At June 30, 2001, the Governmental Accounting Standards Board (GASB) had issued Statement No. 34, "Basic Financial Statements – and Management Discussion and Analysis – For State and Local Governments," issued June 30, 2000 which will be effective for the City, based on its revenues, for the fiscal year ending June 30, 2002. Statement No. 34, summarized from the statement below, imposes new standards for financial reporting. Although the City has not yet completed its assessment of this statement, it will have a material effect on the overall financial statement presentation for the City.

A summarization of the new financial statement guidelines, quoting the GASB Statement No. 34 Summary section, are as follows:

"This Statement establishes financial reporting standards for state and local governments, including states, cities, towns, villages, and special-purpose governments such as school districts and public utilities. It establishes that the basic financial statements and required supplementary information (RSI) for general purpose governments should consist of:

- ❑ Management's discussion and analysis (MD&A). MD&A should introduce the basic financial statements and provide an analytical overview of the government's financial activities. Although it is RSI, governments are required to present MD&A before the basic financial statements.
- ❑ Basic financial statements. The basic financial statements should include:

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- ❑ Government-wide financial statements, consisting of a statement of net assets and a statement of activities. Prepared using the economic resources measurement focus and the accrual basis of accounting, these statements should report all of the assets, liabilities, revenues, expenses, and gains and losses of the government. Each statement should distinguish between the governmental and business-type activities of the primary government and between the total primary government and its discretely presented component units by reporting each in separate columns. Fiduciary activities, whose resources are not available to finance the government's programs, should be excluded from the government-wide statements.
- ❑ Fund financial statements consist of a series of statements that focus on information about the government's major governmental and enterprise funds, including its blended component units. Fund financial statements also should report information about a government's fiduciary funds and component units that are fiduciary in nature. Governmental fund financial statements (including financial data for the general fund and special revenue, capital projects, debt service, and permanent funds) should be prepared using the current financial resources measurement focus and the modified accrual basis of accounting. Proprietary fund financial statements (including financial data for enterprise and internal service funds) and fiduciary fund financial statements (including financial data for fiduciary funds and similar component units) should be prepared using the economic resources measurement focus and the accrual basis of accounting.
- ❑ Notes to the financial statements consist of notes that provide information that is essential to a user's understanding of the basic financial statements.
- ❑ Required supplementary information (RSI). In addition to MD&A, this Statement requires budgetary comparison schedules to be presented as RSI along with other types of data as required by previous GASB pronouncements. This Statement also requires RSI for governments that use the modified approach for reporting infrastructure assets."

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**XXIX. Condensed Financial Statements – Discretely Presented Component Units - Other:**

<i>Balance Sheets</i>			
Condensed Financial Statements - Discretely Presented Component Units - Other			
All Fund Types and Component Units			
June 30, 2001			
	All Fund Types and Component Units	Governmental Fund & Account Groups	Total
	Norfolk Redevelopment and Housing Authority	Norfolk Community Services Board	Component Units - Other
<b>ASSETS</b>			
Certain current assets	\$ 100,611,567	\$ 4,285,546	\$ 104,897,113
Inventories	553,262	-	553,262
Restricted cash and investments	11,856,245	-	11,856,245
Prepaid expenditures	191,278	-	191,278
Unamortized bond issuance costs	99,536	-	99,536
Patient funds	-	-	-
Fixed assets, net of accumulated depreciation	194,033,208	1,298,479	195,331,687
Other assets	24,887,311	-	24,887,311
Amounts to be provided:			
Vested compensated absences	2,221,223	514,232	2,735,455
Retirement of long-term obligations	85,347,412	-	85,347,412
Total assets	<u>\$ 419,801,042</u>	<u>\$ 6,098,257</u>	<u>\$ 425,899,299</u>
<b>LIABILITIES</b>			
Certain current liabilities	\$ 40,829,557	\$ 967,322	41,796,879
Long-term debt	124,097,419	-	124,097,419
Vested compensated absences	-	514,232	514,232
Claims liability	-	-	-
Other liabilities	31,210,499	10,454	31,220,953
Total liabilities	<u>\$ 196,137,475</u>	<u>\$ 1,492,008</u>	<u>\$ 197,629,483</u>
<b>FUND EQUITY</b>			
Investment in general fixed assets	\$ 174,102,744	\$ 1,298,479	\$ 175,401,223
Contributed capital	7,046,092	-	7,046,092
Retained earnings	8,197,203	-	8,197,203
Fund balances:			
Reserved	2,478,198	-	2,478,198
Unreserved	31,839,330	3,307,770	35,147,100
Total fund equity	<u>223,663,567</u>	<u>4,606,249</u>	<u>228,269,816</u>
Total liabilities and fund equity	<u>\$ 419,801,042</u>	<u>\$ 6,098,257</u>	<u>\$ 425,899,299</u>

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<i>Statement of Revenues, Expenses and Changes in Retained Earnings</i> <b>Condensed Financial Statements - Proprietary Fund Types and Other Component Units</b> <b>For the Year Ended June 30, 2001</b>	
	<b>Norfolk Redevelopment and Housing Authority and Component Units</b>
<b>Operating revenue</b>	\$ 16,500,850
<b>Operating expenses:</b>	
Certain operating expenses	12,825,114
Bad debt expense	110,300
Depreciation	2,551,746
Total operating expenses	15,487,160
<b>Operating income (loss)</b>	1,013,690
<b>Non-operating revenue (expenses):</b>	(1,710,343)
Net income (loss)	(696,653)
<b>Retained earnings, beginning of year</b>	9,454,856
<b>Retained earnings, end of year</b>	\$ 8,758,203

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<b>Condensed Financial Statement</b> <b>Component Units - Other - Governmental Funds</b> <i>Statement of Revenue, Expenditures and Changes in Fund Balance</i> <b>For the Year Ended June 30, 2001</b>			
	<b>Norfolk Redevelopment and Housing Authority and Component Units</b>	<b>Norfolk Community Services Board</b>	<b>Total Component units - Other</b>
<b>Revenues:</b>			
Total revenue	\$ 73,995,417	\$ 14,427,688	\$ 88,423,105
<b>Other financing sources:</b>			
Proceeds from sale of fixed assets	655,514	202,308	857,822
Proceeds from notes payable	1,408,727	-	1,408,727
Operating transfers in	6,589,907	1,677,450	8,267,357
Total revenue and other financing sources	82,649,565	16,307,446	98,957,011
<b>Expenditures:</b>			
Operating and other	61,453,322	15,801,377	77,254,699
Capital outlay	4,033,132	-	4,033,132
Principal retirement	2,636,313	-	2,636,313
Loan fees	61,936	-	61,936
Interest and fiscal charges	3,765,080	-	3,765,080
Debt forgiveness	112,463	-	112,463
Community organization	404,509	-	404,509
Total expenditures	72,466,755	15,801,377	88,268,132
<b>Other financing uses</b>			
Operating transfers out	6,308,257	-	6,308,257
Total expenditures and other financing uses	78,775,012	15,801,377	94,576,389
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	3,874,553	506,069	4,380,622
<b>Fund balance, beginning of year</b>	30,442,975	2,801,701	33,244,676
<b>Fund balance, end of year</b>	\$ 34,317,528	\$ 3,307,770	\$ 37,625,298

**CITY OF NORFOLK, VIRGINIA**  
**NOTES TO COMBINED FINANCIAL STATEMENTS**  
**June 30, 2001**

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**XXX. Restatement of Prior Year Memorandum Totals:**

In prior years, the City reported the Norfolk Community Services Board (CSB) as a blended component unit in the Grants Special Revenue Fund. It has been determined that CSB is a separate legal entity and therefore should be presented as a discrete component unit. The June 30, 2000 memorandum totals of the City have been restated to reflect this change. The effect of this restatement was to reduce the Grants Special Revenue Fund revenues and expenditures by \$13,270,647, assets and liabilities by \$2,104,582, and fund balance by \$0 for the year ended June 30, 2000.

**XXXI. Subsequent Events:**

**Series 2001B Water Revenue Bond Anticipation Notes:**

On September 28, 2001, the City issued \$26,000,000 Water Revenue Bond Anticipation Notes, Series 2001B, payable on December 31, 2001.

**Series 2001 Water Revenue and Refunding Bonds:**

On October 15, 2001, the City issued \$35,000,000 Water Revenue and Refunding Serial and Term Bonds, Series 2001, payable over 30 years to November 1, 2031.

The City, the Hampton Roads Sanitation District (HRSD), and the Commonwealth of Virginia are negotiating a potential special order by consent regarding the City's sanitation sewage collection system. Under the proposed agreement, the City between fiscal years 2002-2004 will spend not less than \$13.5 million on specified future projects and conduct a comprehensive sanitary sewer evaluation survey of its system. The results of this survey will identify areas of need within the City that may be a key factor in determining a future capital program for the sewer system.

**CITY OF NORFOLK, VIRGINIA**  
**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED**  
**June 30, 2001**

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**REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedule of Funding Progress for Retirement Plans - UNAUDITED**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a percentage of covered payroll</u>
<b>CITY - EMPLOYEES RETIREMENT SYSTEM</b>						
June 30, 1997	609,200,000	550,100,000	(59,100,000)	110.7%	116,800,000	-50.6%
June 30, 1998	694,200,000	569,900,000	(124,300,000)	121.8%	121,900,000	-102.0%
June 30, 1999	767,800,000	601,400,000	(166,400,000)	127.7%	122,400,000	-135.9%
June 30, 2000	826,400,000	628,200,000	(198,200,000)	131.6%	129,900,000	-152.6%
June 30, 2001	838,100,000	724,700,000	(113,400,000)	115.6%	144,200,000	-78.6%
<b>CITY - VRS EMPLOYEES</b>						
June 30, 1994	6,616,281	5,143,263	(1,473,018)	128.6%	8,426,164	-17.5%
June 30, 1996	9,763,844	7,128,232	(2,635,612)	137.0%	10,892,146	-24.2%
June 30, 1998	15,153,447	12,394,670	(2,758,777)	122.3%	14,517,029	-19.0%
June 30, 1999	18,130,796	14,836,875	(3,293,921)	122.2%	16,921,005	-19.5%
June 30, 2000	21,754,238	15,347,849	(6,406,389)	141.7%	17,288,619	-37.1%
<b>SCHOOL BOARD COMPONENT UNIT - VRS NON-PROFESSIONAL EMPLOYEES</b>						
June 30, 1994	24,476,590	24,773,917	297,327	98.8%	10,306,841	2.9%
June 30, 1996	28,791,766	36,643,242	7,851,476	78.6%	10,696,752	73.4%
June 30, 1998	38,084,919	42,023,200	3,938,281	90.6%	11,108,549	35.5%
June 30, 1999	43,391,826	43,742,383	350,557	99.2%	11,918,607	2.9%
June 30, 2000	49,502,443	42,050,777	(7,451,666)	117.7%	11,993,455	-62.1%

Historical trend information is not available for years prior to 1994, due to implementation of GASB 27, July 1, 1997.